

Mt. Pleasant Public Schools

Financial Report
with Supplemental Information
June 30, 2005



Mt. Pleasant Public Schools

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Independent Auditor's Report

To the Board of Education
Mt. Pleasant Public Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mt. Pleasant Public Schools as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Mt. Pleasant Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Mt. Pleasant Public Schools as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Education
Mt. Pleasant Public Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mt. Pleasant Public Schools' basic financial statements. The accompanying required supplemental information and other supplemental information, as identified in the table of contents, are not a required part of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board; the other supplemental information is presented for the purpose of additional analysis. The required supplemental information and the other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2005, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

November 22, 2005

Mt. Pleasant Public Schools

Management's Discussion and Analysis

This section of the Mt. Pleasant Public Schools annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2005. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Mt. Pleasant Public Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds, the General Fund and the 1997 Debt Service Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements *Fund Financial Statements*

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major Funds

Other Supplemental Information

Reporting the School District as a Whole - District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Mt. Pleasant Public Schools

Management's Discussion and Analysis (Continued)

Reporting the School District as a Whole - District-wide Financial Statements (Continued)

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental Funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

Mt. Pleasant Public Schools

Management's Discussion and Analysis (Continued)

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2005 and 2004:

TABLE I

	Governmental Activities	
	June 30,	
	2005	2004
	(in millions)	(in millions)
Assets		
Current and other assets	\$ 16.2	\$ 14.6
Capital assets	52.0	54.5
Total assets	68.2	69.1
Liabilities		
Current liabilities	12.1	12.2
Long-term liabilities	38.1	42.0
Total liabilities	50.2	54.2
Net Assets		
Invested in property and equipment - Net of related debt	11.2	10.2
Restricted	1.4	1.2
Unrestricted	5.4	3.5
Total net assets	<u>\$ 18.0</u>	<u>\$ 14.9</u>

Mt. Pleasant Public Schools

Management's Discussion and Analysis (Continued)

The School District as a Whole (Continued)

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$18.0 million and \$14.9 million at June 30, 2005 and 2004, respectively. Capital assets net of related debt, totaling \$11.2 million, compares the original cost less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$5.4 million) was unrestricted.

The \$5.4 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

Mt. Pleasant Public Schools

Management's Discussion and Analysis (Continued)

The School District as a Whole (Continued)

The results of this year's operations for the School District as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets for fiscal year 2005 and 2004.

TABLE 2

	Governmental Activities	
	Year Ended June 30,	
	2005	2004
	(in millions)	(in millions)
Revenue		
Program revenue:		
Charges for services	\$ 5.5	\$ 4.6
Federal grants and entitlements	3.8	4.1
State categoricals	2.4	1.1
Operating grants	2.0	1.7
General revenue:		
Property taxes	11.5	10.7
State foundation allowance	19.3	21.5
Other	1.1	0.9
Total revenue	45.6	44.6
Functions/Program Expenses		
Instruction	22.5	22.7
Support services	15.6	15.5
Food services	1.1	1.2
Athletics	0.7	0.6
Community services	1.0	0.8
Interest on long-term debt	1.6	2.5
Total expenses	42.5	43.3
Increase in Net Assets	\$ 3.1	\$ 1.3

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$42.5 million. Certain activities were partially funded from those who benefited from the programs (\$5.5 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$8.2 million). We paid for the remaining "public benefit" portion of our governmental activities with \$11.5 million in taxes, \$19.3 million in state foundation allowance, and with our other revenues; i.e., interest and general entitlements. The School District experienced an increase in net assets of approximately \$3.1 million in the year ended June 30, 2005.

Mt. Pleasant Public Schools

Management's Discussion and Analysis (Continued)

The School District as a Whole (Continued)

As discussed above, the net cost shows the financial burden that was placed on the state and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed the year, the governmental funds reported a combined fund balance of \$7.3 million, which is an increase of approximately \$1.8 million from the previous year. The primary reasons for the increase are as follows:

In the General Fund, our principal operating fund, the fund balance increased \$1.6 million to \$5.3 million, of which \$1.8 million is undesignated. The change is mainly due to budget cuts instituted by the Board of Education including:

- Privatization of food service
- Charging a transportation athletic fee
- Reducing positions
- Reducing supplies, capital project, and repairs expenditures

General Fund fund balance is available to fund costs related to allowable school operating purposes.

Our Special Revenue Funds remained stable from the prior years showing a net increase of approximately \$51,000.

Combined, the Debt Service Funds showed a fund balance increase of approximately \$273,000. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond-issue-related debt service. Durant debt obligations are funded by annual state appropriation, and no fund balance exists at year end. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

The Capital Projects Funds fund balance decreased as the School District made renovations at the Kinney Building to house the Central Administration Offices. The Central Administration Office Building that is located downtown is for sale with the proceeds to be deposited into the Capital Projects Fund.

Mt. Pleasant Public Schools

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted just before year end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

There were revisions made to the 2004-2005 General Fund original budget. Budgeted revenues were increased \$2.7 million due to an unexpected change in certain revenue from the state and federal grants and intermediate sources of revenue.

Budgeted expenditures were also increased \$3.5 million resulting from the School District's revised operating plan due to the fluctuations in revenue. The amount of transfers to other funds established in the amended budget was \$398,000 and represents support provided by the General Fund to other functions.

There were no significant variances between the final budget and actual amounts.

Capital Assets and Debt Administration

Capital Assets

The School District had \$80.5 and \$80.2 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net increase (including additions and disposals) of approximately \$313,000, or 0.4 percent, from last year.

	2005	2004
Land	\$ 196,550	\$ 196,550
Construction in process	239,632	239,632
Buildings and building improvements	64,399,245	64,363,423
Buses and other vehicles	2,515,149	2,671,120
Furniture and equipment	13,141,352	12,708,583
Total capital assets	<u>\$ 80,491,928</u>	<u>\$ 80,179,308</u>

This year's additions of \$468,591 included vehicles, cafeteria equipment, technology, and building renovations.

No major capital projects are planned for the 2005-2006 fiscal year. We anticipate capital additions will be approximately the same as the 2004-2005 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Mt. Pleasant Public Schools

Management's Discussion and Analysis (Continued)

Debt

At the end of this year, the School District had \$41.0 million in long-term obligations outstanding versus \$44.6 million in the previous year - a change of 8.2 percent. Those liabilities consisted of the following:

	2005	2004
Bonds	\$ 40,379,831	\$ 43,605,620
Bus notes	192,680	271,780
Other obligations	407,438	759,702
Total	<u>\$ 40,979,949</u>	<u>\$ 44,637,102</u>

The state limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$41 million is significantly below the approximately \$90 million statutorily imposed limit.

Other obligations include accrued vacation pay and sick leave. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2006 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2006 fiscal year is 25 percent of the February 2005 and 75 percent of the September 2005 student counts. The 2005-2006 budget was adopted in June 2005, based on an estimate of students that will be enrolled in September 2005, and is anticipated to be revised in January 2006. Approximately 62 percent of total General Fund revenue is from the foundation allowance. Under state law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the state's ability to fund local school operations. Based on early enrollment data at the start of the 2005-2006 school year, we anticipated that the fall student count will be close to the estimates used in developing the 2005-2006 budget. Once the final student count and related per pupil funding is validated, state law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Mt. Pleasant Public Schools

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates (Continued)

Since the School District's revenue is heavily dependent on state funding and the health of the state's school aid fund, the actual revenue received depends on the state's ability to collect revenues to fund its appropriation to school districts. The state periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the conference, the state estimates if there will be sufficient funds to fund the appropriation. If there are not sufficient funds, the legislature must revise the appropriation or proration of state aid will occur. This will have an impact on the School District's state projected revenues.

Mt. Pleasant Public Schools

Statement of Net Assets June 30, 2005

	Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 10,985,441
Receivables - Net (Note 4)	5,117,111
Inventories and prepaid items	132,880
Capital assets - Net (Note 5)	52,037,746
Total assets	68,273,178
Liabilities	
Accounts payable	799,564
Accrued payroll and other liabilities	3,398,729
State Aid Anticipation Note (Note 10)	4,560,590
Deferred revenue (Note 4)	510,081
Long-term liabilities (Note 7):	
Due within one year	2,867,161
Due in more than one year	38,112,788
Total liabilities	50,248,913
Net Assets	
Investment in capital assets, net of related debt	11,166,940
Restricted:	
Debt service	1,450,685
Unrestricted	5,406,640
Total net assets	<u><u>\$ 18,024,265</u></u>

Mt. Pleasant Public Schools

Statement of Activities Year Ended June 30, 2005

	Program Revenues			Governmental
	Expenses	Charges for Services	Operating Grants/Contributions	Activities Net Expense and Changes in Net Assets
Functions/Programs				
Primary government - Governmental activities:				
Instruction	\$ 22,482,953	\$ 3,839,997	\$ 6,031,578	\$ (12,611,378)
Support services	15,602,721	-	1,634,264	(13,968,457)
Food service	1,100,984	671,399	486,957	57,372
Athletics	657,714	179,173	-	(478,541)
Community services	1,001,849	825,419	18,519	(157,911)
Interest on long-term debt	1,628,553	-	-	(1,628,553)
Total governmental activities	<u>\$ 42,474,774</u>	<u>\$ 5,515,988</u>	<u>\$ 8,171,318</u>	(28,787,468)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				6,003,398
Property taxes, levied for debt services				5,543,818
State aid not restricted to specific purposes				19,316,104
Interest and investment earnings				162,358
Other				903,372
Total general revenues				<u>31,929,050</u>
Change in Net Assets				3,141,582
Net Assets - Beginning of year				<u>14,882,683</u>
Net Assets - End of year				<u>\$ 18,024,265</u>

Mt. Pleasant Public Schools

Governmental Funds Balance Sheet June 30, 2005

	General	1997 Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments (Note 3)	\$ 9,190,179	\$ 1,241,708	\$ 553,554	\$ 10,985,441
Receivables - Net (Note 4)	4,997,006	-	120,105	5,117,111
Due from other funds (Note 6)	-	5,815	232,926	238,741
Inventories and prepaid items	103,579	-	29,301	132,880
Total assets	<u>\$ 14,290,764</u>	<u>\$ 1,247,523</u>	<u>\$ 935,886</u>	<u>\$ 16,474,173</u>
Liabilities and Fund Balances				
Liabilities				
State aid anticipation note (Note 10)	\$ 4,560,590	\$ -	\$ -	\$ 4,560,590
Accounts payable	669,530	301	129,733	799,564
Accrued payroll and other liabilities	3,067,756	-	32,678	3,100,434
Due to other funds (Note 6)	151,408	-	87,333	238,741
Deferred revenue (Note 4)	510,081	-	-	510,081
Total liabilities	8,959,365	301	249,744	9,209,410
Fund Balances				
Reserved for:				
Grants	1,845,483	-	-	1,845,483
Inventories and prepaid items	103,579	-	29,301	132,880
Debt service	-	1,247,222	203,463	1,450,685
Unreserved:				
Designated for budget carryover	1,563,739	-	-	1,563,739
Designated for capital improvements	-	-	276,791	276,791
Undesignated, reported in:				
General Fund	1,818,598	-	-	1,818,598
Special Revenue Funds	-	-	176,587	176,587
Total fund balances	<u>5,331,399</u>	<u>1,247,222</u>	<u>686,142</u>	<u>7,264,763</u>
Total liabilities and fund balances	<u>\$ 14,290,764</u>	<u>\$ 1,247,523</u>	<u>\$ 935,886</u>	<u>\$ 16,474,173</u>

Mt. Pleasant Public Schools

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2005

Fund Balance - Total governmental funds \$ 7,264,763

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are
not financial resources and are not reported in the
governmental funds:

Cost of the capital assets	\$ 80,491,928	
Accumulated depreciation	<u>(28,454,182)</u>	52,037,746

Long-term liabilities are not due and payable in
the current period and are not reported in the
governmental funds:

Bonds and notes payable	(40,572,511)
Compensated absences	(407,438)

Accrued interest payable is not included as a
liability in governmental funds

(298,295)

Net Assets - Governmental activities

\$ 18,024,265

Mt. Pleasant Public Schools

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

	General	1997 Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Local sources	\$ 8,974,341	\$ 5,512,574	\$ 1,762,329	\$ 16,249,244
Intermediate sources	1,879,690	-	-	1,879,690
State sources	21,670,618	-	61,061	21,731,679
Federal sources	3,376,769	-	444,415	3,821,184
Interdistrict sources	1,934,559	-	-	1,934,559
Total revenue	37,835,977	5,512,574	2,267,805	45,616,356
Expenditures				
Current:				
Instruction	19,786,642	-	-	19,786,642
Support services	14,189,239	-	-	14,189,239
Community services	121,648	-	809,430	931,078
Food service	-	-	1,072,112	1,072,112
Athletics	-	-	612,999	612,999
Debt service:				
Principal	154,100	2,802,599	-	2,956,699
Interest	114,178	1,577,911	-	1,692,089
Other	-	6,700	285,631	292,331
Capital outlay	755,275	-	104,259	859,534
Intergovernmental transfers	748,378	-	-	748,378
Total expenditures	35,869,460	4,387,210	2,884,431	43,141,101
Excess (Deficiency) of Revenue Over Expenditures	1,966,517	1,125,364	(616,626)	2,475,255
Other Financing Sources (Uses)				
Long-term debt issued	-	-	26,590,000	26,590,000
Premium on debt issued	-	-	1,949,407	1,949,407
Payment to refunded bond escrow agent	-	-	(29,172,249)	(29,172,249)
Transfers in	68,859	-	1,506,136	1,574,995
Transfers out	(449,826)	(1,054,626)	(70,543)	(1,574,995)
Total other financing sources (uses)	(380,967)	(1,054,626)	802,751	(632,842)
Net Changes in Fund Balance	1,585,550	70,738	186,125	1,842,413
Fund Balances - Beginning of year	3,745,849	1,176,484	500,017	5,422,350
Fund Balances - End of year	<u>\$ 5,331,399</u>	<u>\$ 1,247,222</u>	<u>\$ 686,142</u>	<u>\$ 7,264,763</u>

The Notes to Financial Statements are an
Integral Part of this Statement.

Mt. Pleasant Public Schools

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

Net Change in Fund Balances - Total governmental funds	\$	1,842,413
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Depreciation expense	\$ (2,887,164)	
Capitalized capital outlay	<u>468,591</u>	(2,418,573)
Bond issuance is not reported as financing sources on the statement of activities		(26,590,000)
Bond premium reported as revenue in the funds and amortized in the statement of activities		(1,893,174)
Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid		60,589
Repayment of bond and note principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		29,994,100
Deferred charges reported as expenditure in the funds and amortized in the statement of activities		1,793,963
Other obligations are recorded when earned in the statement of activities. In the current year, more was paid out than was earned		<u>352,264</u>
Change in Net Assets of Governmental Activities	\$	<u>3,141,582</u>

Mt. Pleasant Public Schools

Fiduciary Fund Statement of Fiduciary Net Assets June 30, 2005

	Private - Purpose Trust	Student Activities Agency Fund
Assets		
Cash and investments (Note 3)	<u>\$ 3,922</u>	<u>\$ 205,978</u>
Liabilities		
Accounts payable	\$ -	\$ 31,236
Due to student groups	<u>-</u>	<u>174,742</u>
Total liabilities	-	<u>\$ 205,978</u>
Net Assets		
Reserved for scholarships	<u>\$ 3,922</u>	

Mt. Pleasant Public Schools

Fiduciary Fund Statement of Changes in Fiduciary Net Assets Year Ended June 30, 2005

	Private - Purpose Trust
Additions - Interest income	\$ 134
Net Assets - Beginning of year	<u>3,788</u>
Net Assets - End of year	<u><u>\$ 3,922</u></u>

Mt. Pleasant Public Schools

Notes to Financial Statements June 30, 2005

Note I - Summary of Significant Accounting Policies

The accounting policies of the Mt. Pleasant Public Schools conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District.

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide Financial Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the School District.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

Mt. Pleasant Public Schools

Notes to Financial Statements June 30, 2005

Note I - Summary of Significant Accounting Policies (Continued)

The School District reports the following major governmental funds:

General Fund - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

1997 Debt Service Fund - The 1997 Debt Service Fund is used to record tax and interest revenue for payment of interest, principal, and other expenditures on the long-term debt.

Additionally, the School District reports the following fund types:

Capital Projects Funds - Capital Projects Funds are used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The fund operates until the purpose for which it was created is accomplished.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. The School District's Special Revenue Funds include the Food Service, Athletics, and Community Services Funds. Any operating deficit generated by these activities is the responsibilities of the General Fund.

Debt Service Funds - The Debt Service Funds are used to record tax and interest revenue for payment of interest, principal, and other expenditures on the long-term debt.

Student Activities Agency Fund - The school district maintains an agency fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Trust Fund - The private-purpose trust fund accounts for contributions received by the School District to provide donor-specified services that benefit the School District.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Mt. Pleasant Public Schools

Notes to Financial Statements June 30, 2005

Note I - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31, and the related property taxes become a lien on December 1 of the following year. These taxes are billed on December 1. Taxes are considered delinquent on March 1 the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

Inventories - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extended asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building improvements	40 years
Buses and other vehicles	7-10 years
Furniture and equipment	5-10 years

Compensated Absences - The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated vacation, sick leave, and retirement benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Mt. Pleasant Public Schools

Notes to Financial Statements June 30, 2005

Note I - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as deferred interest charges, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred interest charges.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data - Comparative data is not included in the School District's financial statements.

New Accounting Pronouncements

GASB #42 - Effective July 1, 2005 the District will adopt the provisions of Governmental Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement will require governments to report the effects of capital asset impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the capital asset or upon disposal of the capital assets. In addition, the statement requires all governments to account for insurance recoveries in the same manner. The District's management does not believe this accounting change will have a significant impact.

Mt. Pleasant Public Schools

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

GASB #47 - Effective July 1, 2005 the District will adopt the provisions of Governmental Accounting Standards Board Statement No. 47, *Accounting for Termination Benefits*. This statement clarifies how governments are to account for and report termination obligations such as early retirement incentives and involuntary severance. The change will primarily impact financial statements prepared on the accrual basis of accounting, generally the district-wide financial statements. The accounting treatment for financial statements prepared on the modified accrual basis of accounting essentially is unchanged. Management believes that the impact of this accounting change will not be material to the school district's basic financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general and all special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. The School District amended budgeted amounts during the year in response to changes in assumptions that were used to develop the original budget.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School District did not have significant expenditure budget variances.

Mt. Pleasant Public Schools

Notes to Financial Statements June 30, 2005

Note 3 - Cash and Investments

State statutes authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District has designated two banks for the deposit of its funds.

The investment policy adopted by the Board has authorized investments consistent with the state statutory authority as described above.

The School District's cash and investments are subject to several types of risk, which are examined in more detail below.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District requires financial institutions be evaluated and only those with an acceptable risk level are used for the School District's deposits for custodial credit risk. At year end, the School District deposit balance of \$11,121,659 had \$10,921,659 of bank deposits (checking accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the District evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The School District's investments at June 30, 2005, were entirely invested in an interlocal agreement investment pool (i.e. MILAF). Investments under the interlocal agreement (MILAF) are regulated by the Urban Cooperation Act. The fair value of the position in the interlocal agreement pools is the same as the value of the pool shares. The interlocal agreement (MILAF) is rated at AAAM according to Standard and Poors.

Mt. Pleasant Public Schools

Notes to Financial Statements June 30, 2005

Note 4 - Receivables

Receivables as of June 30, 2005 for the School District's individual major funds and the nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Nonmajor and Other Funds	Total
Receivables:			
Accounts	\$ 392,507	\$ 58,273	\$ 450,780
Intergovernmental	<u>4,604,499</u>	<u>61,832</u>	<u>4,666,331</u>
Net receivables	<u>\$ 4,997,006</u>	<u>\$ 120,105</u>	<u>\$ 5,117,111</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unearned
Grant and categorical aid payment received prior to meeting all eligibility requirements	<u>\$ 510,081</u>

Mt. Pleasant Public Schools

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2004	Additions	Disposals and Reclassifications	Balance June 30, 2005
Capital assets not being depreciated:				
Land	\$ 196,550	\$ -	\$ -	\$ 196,550
Construction in process	239,632	-	-	239,632
Subtotal	436,182	-	-	436,182
Capital assets being depreciated:				
Building and building improvements	64,363,423	35,822	-	64,399,245
Buses and other vehicles	2,671,120	-	(155,971)	2,515,149
Furniture and equipment	12,708,583	432,769	-	13,141,352
Subtotal	79,743,126	468,591	(155,971)	80,055,746
Accumulated depreciation:				
Building and building improvements	16,767,296	1,375,521	-	18,142,817
Buses and other vehicles	2,770,916	376,839	(920,509)	2,227,246
Furniture and equipment	6,184,777	1,134,804	764,538	8,084,119
Subtotal	25,722,989	2,887,164	(155,971)	28,454,182
Net capital assets being depreciated	54,020,137	(2,418,573)	-	51,601,564
Net governmental capital assets	<u>\$ 54,456,319</u>	<u>\$ (2,418,573)</u>	<u>\$ -</u>	<u>\$ 52,037,746</u>

Depreciation expense was charged to activities of the School District as follows:

Governmental activities:

Instruction	\$ 2,309,731
Support services	433,075
Food services	28,872
Athletics	43,307
Community services	72,179
Total governmental activities	<u>\$ 2,887,164</u>

Mt. Pleasant Public Schools

Notes to Financial Statements June 30, 2005

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Due From Fund	Due To Fund	Amount
General Fund	Other nonmajor governmental funds	\$ 151,408
Other nonmajor governmental funds	1997 Debt Service Fund	5,815
Other nonmajor governmental funds	Other nonmajor governmental funds	81,518
Total		<u>\$ 238,741</u>

Interfund transfers:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Other nonmajor governmental funds	\$ 449,826
1997 Debt Service Fund	Other nonmajor governmental funds	1,054,626
Other nonmajor governmental funds	Other nonmajor governmental funds	1,684
Other nonmajor governmental funds	General Fund	68,859
Total		<u>\$ 1,574,995</u>

Interfund balances and transfers represent routine and temporary cash flow assistance between funds.

Note 7 - Long-term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Notes and installment purchase agreements are also general obligations of the School District. Other long-term obligations include compensated absences.

Mt. Pleasant Public Schools

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds	\$ 43,605,620	\$ 26,590,000	\$ (29,915,000)	\$ 40,280,620	\$ 2,780,203
Less deferred amounts:					
Interest charges	-	(1,847,249)	53,286	(1,793,963)	(142,096)
Issuance premiums	-	1,949,407	(56,233)	1,893,174	149,954
Total bonds payable	43,605,620	26,692,158	(29,917,947)	40,379,831	2,788,061
Bus notes	271,780	-	(79,100)	192,680	79,100
Other obligations	759,702	-	(352,264)	407,438	-
Total governmental activities	<u>\$ 44,637,102</u>	<u>\$ 26,692,158</u>	<u>\$ (30,349,311)</u>	<u>\$ 40,979,949</u>	<u>\$ 2,867,161</u>

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

Year Ending June 30	Governmental Activities		
	Principal	Interest	Total
2006	\$ 2,859,303	\$ 2,161,821	\$ 5,021,124
2007	2,996,208	1,775,922	4,772,130
2008	3,068,863	1,636,417	4,705,280
2009	3,390,970	1,528,617	4,919,587
2010	3,408,423	1,322,252	4,730,675
2011-2015	15,524,533	4,289,178	19,813,711
2016-2018	9,225,000	822,562	10,047,562
Total	<u>\$ 40,473,300</u>	<u>\$ 13,536,769</u>	<u>\$ 54,010,069</u>

Mt. Pleasant Public Schools

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

Governmental Activities

General obligation bonds consist of the following:

2005 Refunding Bonds, \$26,590,000 original issue, due in annual installments of \$1,000,000 to \$3,075,000 from May 1, 2009 through May 1, 2018; interest at 3.0% to 5.0%	\$ 26,590,000
2000 Energy Bonds, \$800,000 original issue, due in annual installments of \$80,000 to \$105,000 through May 1, 2010; interest at 4.85% to 5.0%	455,000
1998 Durant Bonds, \$830,580 original issue, due in annual installments of \$40,203 to \$196,230 through May 15, 2013; interest at 4.76%	530,620
1997 Building and Site and Refunding Bonds, \$48,280,000 original issue, due in annual installments of \$2,080,000 to \$2,915,000 through May 1, 2010; interest at 4.7% to 5.75%	<u>12,705,000</u>
Total bonded debt	<u>\$ 40,280,620</u>

Durant Non-plaintiff Bond - Included in Governmental Activities General Obligation Bonds is the Durant Non-Plaintiff Bonds. Annual total payments (principal and interest) associated with this bond are funded by the State of Michigan via specifically appropriated state aid and will not require any School District debt levy or utilization of any other School District financial resources.

Bus Notes - Consist of the following:

Date	Original Amount	Due Date	Interest Rate	Remaining to Maturity	
				Interest	Principal
August 29, 2003	\$ 98,700	August 29, 2008	3.20%	\$ 6,317	\$ 78,960
July 1, 2002	195,000	May 1, 2007	2.5%	2,306	75,000
July 16, 2001	<u>96,800</u>	July 16, 2006	to 3.25% 4.63%	<u>2,689</u>	<u>38,720</u>
Total	<u>\$ 390,500</u>			<u>\$ 11,312</u>	<u>\$ 192,680</u>

Mt. Pleasant Public Schools

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

Other governmental activities long-term obligations include employee compensated absences of \$407,438.

Advance and Current Refundings - During the year, the School District issued \$26,590,000 in general obligation bonds with an average interest rate of four percent. The proceeds of these bonds were used to advance refund \$27,325,000 of outstanding 1997 School Building and Site and Refunding bonds with an average interest rate of 5 percent. The net proceeds of \$26,007,000 (after payment of \$293,000 in underwriting fees, insurance and other issuance costs) plus an additional \$1,025,000 of 1997 Debt Service Fund monies were used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the School District's long-term obligations. The advance refunding reduced total debt service payments by approximately \$2,021,687, which represents an economic gain of approximately \$1,491,929.

Note 8 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for property loss, torts, errors and omissions, and medical benefit claims and participates in the SEG Self-Insurers Workers' Disability Compensation Fund (risk pool) for claims relating to worker's compensation; the School District is uninsured for unemployment claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Mt. Pleasant Public Schools

Notes to Financial Statements June 30, 2005

Note 9 - Defined Benefit Pension Plan and Post Employment Benefits

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at P.O. Box 30171, Lansing, MI 48909-7671.

Funding Policy - Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 12.99 percent for the period from July 1, 2004 through September 30, 2004 and 14.87 percent from October 1, 2004 through June 30, 2005 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3.0 percent to 4.3 percent of gross wages. The School District's contributions to the MPERS plan for the years ended June 30, 2005, 2004, and 2003 were \$3,247,473, \$2,764,118, and \$2,853,182, respectively.

Postemployment Benefits - Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPERS plan discussed above.

Note 10 - State Aid Anticipation Note

On August 20, 2004, the School District borrowed \$4,500,000 in a State Aid Anticipation Note. The note bore interest at 1.57 percent and was paid August 19, 2005. At June 30, 2005, the School District had accrued interest of \$60,590 on this note.

Note 11 - Subsequent Events

On August 19, 2005, the School District borrowed \$2,000,000 at 2.92 percent annual interest in a State Aid Anticipation Note. The note, plus interest, is due August 18, 2006.

Required Supplemental Information

Mt. Pleasant Public Schools

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Final Budget	Actual
Revenue			
Local sources	\$ 5,553,690	\$ 6,092,110	\$ 6,012,833
Other local sources	1,522,350	2,123,320	2,961,508
Intermediate sources	-	1,879,700	1,879,690
State sources	21,914,675	21,900,745	21,670,618
Federal sources	4,328,227	3,569,949	3,376,769
Interdistrict sources	-	-	1,934,559
Total revenue	33,318,942	35,565,824	37,835,977
Expenditures			
Current:			
Instruction:			
Basic programs	13,692,295	15,406,538	13,882,607
Added needs	6,784,419	7,102,364	6,228,877
Adult and continuing education	248,103	251,634	146,369
Other	43,000	33,000	3,638
Support services:			
Pupil	3,539,282	3,704,744	3,514,019
Instructional staff	2,802,862	2,818,807	2,350,959
General administration	356,580	391,575	339,690
School administration	1,954,614	1,905,165	1,909,706
Business services	656,741	767,540	496,168
Maintenance	3,818,718	4,604,132	3,699,871
Transportation	1,519,579	1,530,647	1,400,671
Central services	817,747	788,909	733,096
Other	17,000	12,000	25,485
Community services	104,506	228,774	121,648
Debt service	-	-	268,278
Total expenditures	36,355,446	39,545,829	35,121,082
Other Financing Sources (Uses)			
Transfers out and other transactions	(783,590)	(1,058,191)	(1,198,204)
Transfers in and other transactions	2,342,590	2,837,286	68,859
Total other financing sources (uses)	1,559,000	1,779,095	(1,129,345)
Net Change in Fund Balance	(1,477,504)	(2,200,910)	1,585,550
Fund Balance - July 1, 2004	2,098,459	3,745,855	3,745,849
Fund Balance - June 30, 2005	<u>\$ 620,955</u>	<u>\$ 1,544,946</u>	<u>\$ 5,331,399</u>

Other Supplemental Information

Mt. Pleasant Public Schools

	Special Revenue Funds		
	Food Service	Athletics	Community Services
Assets			
Cash and investments	\$ 7,549	\$ -	\$ 150
Accounts receivables	57,692	581	-
Due from other governments	60,430	-	1,402
Due from other funds	1,771	11,720	219,435
Inventories	29,301	-	-
Total assets	<u><u>\$ 156,743</u></u>	<u><u>\$ 12,301</u></u>	<u><u>\$ 220,987</u></u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 127,152	\$ -	\$ 580
Salaries and other accrued liabilities	-	12,301	20,377
Due to other funds	23,733	-	-
Total liabilities	150,885	12,301	20,957
Fund Balances			
Reserved:			
Inventories	29,301	-	-
Debt service	-	-	-
Unreserved:			
Designated for capital improvements	-	-	-
Undesignated, reported in:			
Special Revenue Funds	(23,443)	-	200,030
Total fund balances	<u>5,858</u>	<u>-</u>	<u>200,030</u>
Total liabilities and fund balances	<u><u>\$ 156,743</u></u>	<u><u>\$ 12,301</u></u>	<u><u>\$ 220,987</u></u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005**

Debt Service Funds			
1994 Debt Service	2005 Debt Service	Capital Projects Fund	Total
\$ -	\$ 203,463	\$ 342,392	\$ 553,554
-	-	-	58,273
-	-	-	61,832
-	-	-	232,926
-	-	-	29,301
<u>\$ -</u>	<u>\$ 203,463</u>	<u>\$ 342,392</u>	<u>\$ 935,886</u>
\$ -	\$ -	\$ 2,001	\$ 129,733
-	-	-	32,678
-	-	63,600	87,333
-	-	65,601	249,744
-	-	-	29,301
-	203,463	-	203,463
-	-	276,791	276,791
-	-	-	176,587
-	203,463	276,791	686,142
<u>\$ -</u>	<u>\$ 203,463</u>	<u>\$ 342,392</u>	<u>\$ 935,886</u>

Mt. Pleasant Public Schools

	Special Revenue Funds		
	Food Service	Athletics	Community Services
Revenue			
Local sources	\$ 676,164	\$ 179,173	\$ 825,419
State sources	61,061	-	-
Federal sources	425,896	-	18,519
Total revenue	1,163,121	179,173	843,938
Expenditures			
Current:			
Community services	-	-	809,430
Food services	1,072,112	-	-
Athletics	-	612,999	-
Debt service:			
Other	-	-	-
Capital outlay	20,379	-	1,423
Total expenditures	1,092,491	612,999	810,853
Excess (Deficiency) of Revenue Over Expenditures	70,630	(433,826)	33,085
Other Financing Sources (Uses)			
Long-term debt issued	-	-	-
Premium on debt issued	-	-	-
Payment to refunded bond escrow agent	-	-	-
Transfers in	-	433,826	16,000
Transfers out	(68,859)	-	-
Total other financing sources (uses)	(68,859)	433,826	16,000
Net Change in Fund Balances	1,771	-	49,085
Fund Balances - Beginning of year	4,087	-	150,945
Fund Balances - End of year	<u>\$ 5,858</u>	<u>\$ -</u>	<u>\$ 200,030</u>

**Other Supplemental Information Combining Statement of Revenue,
Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2005**

Debt Service Funds			
1994 Debt Service	2005 Debt Service	Capital Projects Fund	Total
\$ -	\$ 65,626	\$ 15,947	\$ 1,762,329
-	-	-	61,061
-	-	-	444,415
-	65,626	15,947	2,267,805
-	-	-	809,430
-	-	-	1,072,112
-	-	-	612,999
-	285,631	-	285,631
-	-	82,457	104,259
-	285,631	82,457	2,884,431
-	(220,005)	(66,510)	(616,626)
-	26,590,000	-	26,590,000
-	1,949,407	-	1,949,407
-	(29,172,249)	-	(29,172,249)
-	1,056,310	-	1,506,136
(1,684)	-	-	(70,543)
(1,684)	423,468	-	802,751
(1,684)	203,463	(66,510)	186,125
1,684	-	343,301	500,017
<u>\$ -</u>	<u>\$ 203,463</u>	<u>\$ 276,791</u>	<u>\$ 686,142</u>

Mt. Pleasant Public Schools

Other Supplemental Information Statement of Bonded and Note Indebtedness June 30, 2005

Principal Maturities Year Ending June 30	1997 School Building and Site Bonds	1998 Durant Bond	2000 Energy Bond	2005 Refunding Bonds	Bus Notes
2006	\$ 2,660,000	\$ 40,203	\$ 80,000	\$ -	\$ 79,100
2007	2,795,000	42,108	85,000	-	74,100
2008	2,915,000	44,123	90,000	-	19,740
2009	2,080,000	196,230	95,000	1,000,000	19,740
2010	2,255,000	48,423	105,000	1,000,000	-
2011	-	50,730	-	3,065,000	-
2012	-	53,142	-	3,075,000	-
2013	-	55,661	-	3,075,000	-
2014	-	-	-	3,075,000	-
2015	-	-	-	3,075,000	-
2016	-	-	-	3,075,000	-
2017	-	-	-	3,075,000	-
2018	-	-	-	3,075,000	-
	<u>\$ 12,705,000</u>	<u>\$ 530,620</u>	<u>\$ 455,000</u>	<u>\$ 26,590,000</u>	<u>\$ 192,680</u>
Principal payments due	May 1	May 15	May 1	May 1	Various
Interest payments due	May 1 and November 1	May 15	May 1 and November 1	May 1 and November 1	Various
Interest rate	4.7% to 5.75%	4.76%	4.85% to 5.0%	3.0% to 5.0%	2.5% to 4.63%
Original issue	<u>\$ 48,280,000</u>	<u>\$ 830,580</u>	<u>\$ 800,000</u>	<u>\$ 26,590,000</u>	<u>\$ 390,500</u>

Mt. Pleasant Public Schools

**Federal Awards
Supplemental Information
June 30, 2005**

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Mt. Pleasant Public Schools

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Independent Auditor's Report

Board of Education
Mt. Pleasant Public Schools

We have audited the basic financial statements of Mt. Pleasant Public Schools for the year ended June 30, 2005 and have issued our report thereon dated November 22, 2005. Those basic financial statements are the responsibility of the management of Mt. Pleasant Public Schools. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Mt. Pleasant Public Schools taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

November 22, 2005

Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

Board of Education
Mt. Pleasant Public Schools

We have audited the financial statements of Mt. Pleasant Public Schools as of and for the year ended June 30, 2005 and have issued our report thereon dated November 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mt. Pleasant Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Mt. Pleasant Public School's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 05-01, 05-02, 05-03, and 05-04.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relations to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weakness. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mt. Pleasant Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of Board of Education, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

November 22, 2005

Report on Compliance with Requirements Applicable to Each Major Program and
on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Education
Mt. Pleasant Public Schools

Compliance

We have audited the compliance of Mt. Pleasant Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The major federal programs of Mt. Pleasant Public Schools are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Mt. Pleasant Public School's management. Our responsibility is to express an opinion on Mt. Pleasant Public School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mt. Pleasant Public School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Mt. Pleasant Public School's compliance with those requirements.

In our opinion, Mt. Pleasant Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Mt. Pleasant Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Mt. Pleasant Public School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of Board of Education, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

November 22, 2005

Mt. Pleasant Public Schools

Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2004	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2005
Clusters							
Child Nutrition Cluster:							
U.S. Department of Agriculture - Passed through the Michigan Department of Education:							
National School Breakfast Program:	10.553						
2004-2005		\$ 81,657	\$ -	\$ -	\$ 81,657	\$ 81,657	\$ -
2003-2004		63,737	73,916	10,179	10,179		-
National School Lunch Program:	10.555						
2004-2005		276,756	-	-	276,756	276,756	-
2003-2004		211,690	242,601	30,911	30,911	-	-
Total Child Nutrition Cluster		633,840	316,517	41,090	399,503	358,413	-
Special Education Cluster:							
U.S. Department of Education:							
Passed through the Gratiot County RESD - IDEA:	84.027						
Project number 03045-0405		254,004	-	-	254,004	254,004	-
Other Federal Awards							
U.S. Department of Education:							
Direct programs:							
Drug & Violence Prevention S184K01025	84.184	181,208	34,012	10,077	49,507	50,872	11,442
After School Learning Centers:	84.287						
S287B11190-03		5,230,015	3,810,383	262,050	1,681,682	1,419,632	-
Title IX Indian Education	84.060	66,937	-	-	66,937	66,937	-
Total noncluster direct programs		5,478,160	3,844,395	272,127	1,798,126	1,537,441	11,442

Mt. Pleasant Public Schools

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2005

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2004	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2005
Other Federal Awards (Continued)							
U.S. Department of Education:							
Passed through the Michigan Department of Education:							
Adult Basic Education - Instruction:	84.002						
Project number 051130 510915		\$ 81,841	\$ -	\$ -	\$ 56,720	\$ 81,841	\$ 25,121
Project number 041130 410914		84,000	75,817	2,907	2,907	-	-
Total Adult Basic Education - Instruction		165,841	75,817	2,907	59,627	81,841	25,121
Adult Basic Education - Institutional:	84.002						
Project number 051190 510915		24,216	-	-	19,955	23,729	3,774
Title I:	84.010						
Project number 051530 0405		694,980	-	-	390,275	534,321	144,046
Project number 031530 0304		267,115	262,115	24,310	24,310	-	-
Project number 041530 0304		761,441	550,469	14,525	161,290	208,359	61,594
Project number 031530 0203		554,761	559,761	5,000	5,000	-	-
Total Title I		2,278,297	1,372,345	43,835	580,875	742,680	205,640
Safe and Drug-free Schools and Communities:	84.186						
Project number 052860 0405		25,828	-	-	16,200	20,359	4,159
Project number 042860 0304		27,344	10,398	(3,963)	-	3,963	-
Total Safe and Drug-free Schools and Communities		53,172	10,398	(3,963)	16,200	24,322	4,159
Even Start:	84.213						
Project number 050390 D0520CES		225,000	-	-	150,333	162,457	12,124
Project number 030390 C04131CES		188,273	169,958	40,113	58,428	18,315	-
Total Even Start		413,273	169,958	40,113	208,761	180,772	12,124

Mt. Pleasant Public Schools

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2005

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2004	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2005
Other Federal Awards (Continued)							
U.S. Department of Education: (Continued)							
Passed through the Michigan Department of Education (Continued):							
Improving Teacher Quality:	84.367						
Project number 050520 0405		\$ 245,218	\$ -	\$ -	\$ 142,085	\$ 219,931	\$ 77,846
Project number 040520 0405		73,720	-	-	45,420	73,720	28,300
Project number 030520 0304		70,884	70,884	21,434	21,434	-	-
Project number 0405200304		<u>248,652</u>	<u>174,932</u>	<u>86,967</u>	<u>86,967</u>	<u>-</u>	<u>-</u>
Total Improving Teacher Quality		638,474	245,816	108,401	295,906	293,651	106,146
Technology Literacy Challenge Grants:	84.318						
Project number 054290 0405		17,234	-	-	4,845	5,779	934
Project number 044290 0405		7,999	-	-	4,560	7,999	3,439
Project number 034290 0304		19,782	19,782	14,518	14,518	-	-
Project number 044290 0304		<u>18,210</u>	<u>10,211</u>	<u>8,934</u>	<u>8,934</u>	<u>-</u>	<u>-</u>
Total Technology Literacy Challenge Grants		63,225	29,993	23,452	32,857	13,778	4,373
Title V:	84.298						
Project number 040250 0405		2,935	-	-	2,765	2,935	170
Project number 050250 0405		2,393	-	-	80	-	(80)
Project number 040250 0304		<u>3,359</u>	<u>423</u>	<u>(666)</u>	<u>(666)</u>	<u>-</u>	<u>-</u>
Total Title V		<u>8,687</u>	<u>423</u>	<u>(666)</u>	<u>2,179</u>	<u>2,935</u>	<u>90</u>
Total noncluster programs passed through the Michigan Department of Education		3,645,185	1,904,750	214,079	1,216,360	1,363,708	361,427

Mt. Pleasant Public Schools

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2005

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2004	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2005
Other Federal Awards (Continued)							
Passed through the Gratiot Isabella RESD							
Vocational Education:	84.048						
2004-05		\$ 176,780	\$ -	\$ -	\$ 176,780	\$ 176,780	\$ -
Medicaid Targeted Case Management	93.778	42,567	-	-	42,567	42,567	-
U.S. Department of Homeland Security:							
Passed through the Michigan Department of State Police:							
State Homeland Security Grant	97.004	2,268	-	-	2,268	2,268	-
U.S. Department of Agriculture - Passed through the							
Michigan Department of Education:							
Food Distribution:	10.550						
Entitlement commodities - 2004-2005		55,282	-	-	55,282	55,282	-
Bonus commodities - 2004-2005		12,202	-	-	12,202	12,202	-
Total Food Distribution		67,484	-	-	67,484	67,484	-
Child Care Food Program	10.558	18,677	-	-	18,519	18,519	-
Total U.S. Department of Agriculture Noncluster Programs		86,161	-	-	86,003	86,003	-
Total federal awards		<u>\$ 10,318,965</u>	<u>\$ 6,065,662</u>	<u>\$ 527,296</u>	<u>\$ 3,975,611</u>	<u>\$ 3,821,184</u>	<u>\$ 372,869</u>

Mt. Pleasant Public Schools

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Mt. Pleasant Public Schools and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Noncash Assistance

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

Summary of Noncash Assistance - The grantee received the following noncash assistance during the year ended June 30, 2005 that is not included on the schedule of expenditures of federal awards:

Note 3 - Grant Section Auditor's Report

Management has utilized Form R-7120 in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

Mt. Pleasant Public Schools

Schedule of Findings and Questioned Costs Year Ended June 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? X Yes _____ None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
84.287	After School Learning Centers

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low risk auditee? X Yes _____ No

Mt. Pleasant Public Schools

Schedule of Findings and Questioned Costs Year Ended June 30, 2005

Section II - Financial Statement Audit Findings

Reference Number	Findings
05-01	<p>Finding Type - Reportable condition</p> <p>Condition - The School District did not prepare timely bank reconciliations.</p> <p>Description - In order to maintain adequate internal control, timely bank reconciliations should be prepared. We recommend, and Mt. Pleasant Public Schools concurs, that timely bank reconciliations be prepared in the future.</p>
05-02	<p>Finding Type - Reportable condition</p> <p>Condition - The School District did not complete timely review of general ledger accounts; therefore, several journal entries were made subsequent to year end.</p> <p>Description - In order to maintain adequate internal control over the general ledger, someone independent of the daily recording of transactions should be monitoring the accounts on a monthly basis. We recommend the School District reconcile accounts in a timely manner to provide accurate and useful information.</p>

Mt. Pleasant Public Schools

Schedule of Findings and Questioned Costs Year Ended June 30, 2005

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
05-03	<p>Finding Type - Reportable condition</p> <p>Condition - The School District had several items occur in the payroll department that were not identified in a timely manner. These items include overpayment of employee withholdings, 941s were not reconciled timely, and W-4s were not on file to support employee withholdings.</p> <p>Description - In order to maintain adequate internal control over the payroll process, someone independent of the daily recording of transactions should be reconciling the accounts and properly monitoring this process.</p>

Reference Number	Findings
05-04	<p>Finding Type - Other noncompliance</p> <p>Criteria - In accordance with the State School Aid Act, the School District is required to submit the audited financial statements and federal awards report in accordance with OMB Circular A-133 to the State of Michigan Department of Education by November 15th.</p> <p>Condition - The School District's audited financial statements and federal awards audit in accordance with OMB Circular A-133 were not submitted to the State of Michigan Department of Education by November 15th.</p> <p>Cause and Effect - Due to a delay in the completion of the above referenced audits, the submission was not completed timely.</p> <p>Recommendation - The School District should make sure that the above referenced audits are completed and submitted timely.</p>

Mt. Pleasant Public Schools

Schedule of Findings and Questioned Costs Year Ended June 30, 2005

Section III - Federal Program Audit Findings

Reference Number	Findings
None	

Mt. Pleasant Public Schools

Report to the Board of Education

June 30, 2005

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To the Board of Education
Mt. Pleasant Public Schools

In planning and performing our audit of the financial statements of Mt. Pleasant Public Schools for the year ended June 30, 2005, we considered the School District's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal structure that have come to our attention and, in our judgment, could adversely affect the School District's ability to record, process, summarize, and report financial data consistent with management's assertions inherent in the financial statements.

This report contains items considered to be reportable conditions, as defined above, as well as recommendations we feel, if implemented, will improve the internal controls and efficiency of your organization. All items are presented for your consideration on attachments as outlined below:

<u>Title</u>	<u>Page</u>
Reportable Conditions	
General Ledger Reconciliations	3
Bank Reconciliations	3
Payroll	3
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To the Board of Education
Mt. Pleasant Public Schools

We are grateful for the opportunity to be of service to your School District. The cooperation extended to us by the School District throughout the audit was greatly appreciated. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

November 22, 2005

Mt. Pleasant Public Schools

Reportable Conditions

General Ledger Monitoring

A major control over financial records is the monitoring of the general ledger. Several journal entries were required after year end to adjust the general ledger to reflect accurate balances. The various journal entries impacted cash, accounts payable, and accrued liabilities.

The purpose of monitoring the general ledger is to assure activity that occurred at the School District is properly reflected in the general ledger. This is essential so management and the Board can have accurate monthly financial information to make informed decisions. Monitoring of the balance sheet, as well as the revenue and expenditure activity, should occur monthly and include evaluation and investigation of unusual fluctuations and unrecorded transactions for accurate reporting of financial information. Furthermore, it assists the School District in a more timely closure of the year-end process and enables the School District to identify and resolve errors on a timely basis.

We recommend that the District monitor the general ledger in a timely manner to provide accurate and useful information. The Board of Education needs accurate information in order to make appropriate decisions.

Bank Reconciliations

Another significant element of internal control is timely completion of bank reconciliations. The bank reconciliations were not performed timely. The purpose of the reconciliation is to assure that any discrepancies that may exist between the bank statements and the general ledger accounts will be corrected promptly. This could prevent situations such as a bank error or fraudulent behavior from affecting the School District. Furthermore, the School District should have an individual independent of the preparation of the bank reconciliations review this process evidenced by a signature of review and a date. This will verify that the reviewer has approved the reconciliations, and the date will verify timeliness of the preparation. The School District should also consider closing some additional cash accounts to reduce the amount of time necessary to prepare the reconciliations.

We encourage the School District to place a high priority on the timely completion and review of the bank reconciliations. The accurate and timely preparation of bank reconciliations is vital to maintaining effective internal controls over cash, including knowledge of cash balances at any given time. In addition, we recommend that the general ledger detail for each month be attached to the reconciliation in order to provide documentation that the account was reconciled.

Mt. Pleasant Public Schools

Reportable Conditions

Payroll

We identified several payroll-related items that occurred during the year. Those items include overpayment of federal, FICA and state withholdings, which the District became aware of five months after year end; the Employer's Quarterly Federal Tax Returns (941s) were not reconciled to the general ledger until five months after year end; the District has several old outstanding payroll checks; and the employees were not required to complete new W-4s for the change in the withholdings for their balance of contract payments.

Appropriate review and monitoring of payroll and payroll-related documents should be performed by the appropriate individuals on a timely basis. If the reconciliations and monitoring was completed timely, the District would have identified and potentially prevented the errors as identified. Management should monitor the payroll activity to ensure these problems do not occur in future years.

Mt. Pleasant Public Schools

Recommendations and Informational Comments

Capitalization Policy

The School District has a capitalization policy of \$5,000; however, the District has capitalized numerous items below this threshold. The purpose of a capitalization policy is to eliminate the time that is required to track and depreciate a large population of small dollar items. The District should evaluate the appropriate level of capitalization and follow the board-approved capitalization policy.

Property Tax Receivable

Through review of property taxes receivable, we noted that the District has not recorded approximately \$100,000 in revenue as it relates to delinquent taxes from Union Township. Management has been unsuccessful in collecting delinquent taxes from the township and therefore, has not typically recorded a receivable. If the District cannot collect these funds from the township, they should contact the State as their foundation allowance is reduced for these funds.

Fund Balance

We feel that it is important for the District to maintain an appropriate level of fund equity. We believe that the benefit of the District maintaining an appropriate amount of fund equity allows the District the ability to maintain its current level of programs, while being able to meet unforeseen circumstances like the implementation of State Aid proration and the uncertainties with funding provided by the state. This becomes especially important due to the funding caps imposed by school finance reform, increasing retirement and other costs, and cash flow needs due to the elongation of state aid payments, as well as concerns over the financial health of the school aid fund.

The General Fund unreserved and undesignated fund balance was approximately \$1.8 million; however, with the retroactive salaries from the contract settlement would reduce the unreserved and undesignated fund balance to approximately \$1.7 million at June 30, 2005. Fund balance goals are often stated in terms of a percentage of total expenditures. As a point of reference, the statewide average for school districts (includes unreserved, designated and restricted) at June 30, 2004 (excluding Detroit) is approximately 15.41 percent of expenditures. Mt. Pleasant School District's unreserved, undesignated fund equity percentage is 4.7 percent (based on the reduction of the retroactive pay) and equals less than one month of operation. Clearly, as the District moves through 2005-2006, it will face unprecedented challenges in this area given the funding plan put in place by the state coupled with increasing fringe benefit costs.

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State Aid Issues

During many of the past years, districts had the advantage of having a State Aid Act in place prior to the start of their new fiscal year. This is not the case for the fiscal year starting July 1, 2005, however, the State Aid Act has now been finalized with some highlights addressed below:

- Foundation Allowance: A \$175 increase in the foundation allowance
- Blended Count: No changes in the blended count; it remains at 75 percent / 25 percent
- At Risk Funding: At Risk funding remains the same as last year
- Retirement Rate: The retirement rate is 16.34 percent for FY 2006

There remains the continuing possibility of prorations if the School Aid Fund revenue should fall short of projections. Current projections are based on a 3.5 percent increase in revenue in the school aid fund.

No Child Left Behind (NCLB)

The implications of NCLB program compliance are extremely complicated and continue to change. As auditors, we are not engaged in the educational implications of NCLB. However, over the last year, we have begun to understand some of the finance-related implications. While we, along with the educational community, continue to become aware of how NCLB impacts operations, we have identified a few potential pitfalls we want to offer for District consideration as part of its compliance with NCLB. They include:

- Title I Set Asides - NCLB requires that some funds be “set aside” before the building allocations are completed. The State of Michigan has revised its forms to aid the District in the allocation process.
- Private School Participation - When allocating funds to buildings, the District must determine if funds must be set aside for private school students who live in the building attendance area. This must be done. If, after the allocation, private schools decline the service, then funds can be used in the public school. State forms have been updated to aid in meeting this requirement as well.
- Highly Qualified Staff - Beginning in 2006, all teachers of core academic subjects and paraprofessionals who support Title I programs must be highly qualified. The School District must track who must be highly qualified and ensure evidence compliance with the requirement is documented in District files. After requests by the American Federation of Teachers (AFT) as well as legislators, the education department has extended the deadline for teacher aides to become highly qualified from January 2006 to the end of the 2005-2006 school year.

Clearly NCLB has created a learning experience for everyone involved. As we become aware of additional financial implications, we will do our best to keep you informed.

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Future MPSERS Contribution Rate

Several factors will be placing significant upward pressure on the MPSERS contribution rate in future years. Some of the more significant factors are as follows:

- The plan uses a “five-year smoothing” method to account for the annual change in the market value of the investment assets. This means the significant stock market losses of 2001 and 2002 will impact the contribution rate for several more years.
- The plan treats the retiree health care costs on a “pay as you go” basis. This means the annual significant rise in health care costs, including prescription drugs, impacts the contribution rate immediately.
- The plan has held the contribution rate below the calculated level during the past three years by using reserves. These reserves are now gone, and the rate will automatically rise to reflect the lack of further subsidy.

The contribution rate for the MPSERS plan for the plan year ending September 30, 2006, is 16.34 percent. There is much speculation that this rate could go to 20 percent or more for the plan year ending September 30, 2008. An increase from 16.34 percent to 20.00 percent would cost the District approximately \$37,000 for each \$1,000,000 of payroll!

Long Range Planning Under Proposal A

When Proposal A was passed in 1994, the warning was issued that districts would now be almost totally dependent upon the State School Aid Fund for day-to-day operations. And with the shift in emphasis away from property taxes and towards sales tax, this revenue source would be more volatile than previous sources. We now see how true that warning was at the time. With no increase in the foundation allowance for the previous three years (and a proration in two of those years), a modest increase proposed for FYE 2006, continued State General fund budget constraints and rising health and pension costs, having a long range (five year) budget plan is critical to managing your District through these troubled waters. The model should provide clear, concise answers to a variety of “what if” scenarios so the administration, School Board, and local community can quickly visualize and understand the impact of rapidly changing financial conditions.

GASB 40, Investment Risk Disclosure

During the year ended June 30, 2005, the District adopted GASB Statement 40 *Deposit and Investment Risk Disclosures*. This pronouncement required expanded disclosures in the footnotes to the financial statements of the risks associated with the District’s investments and the District’s policies for addressing those risks.

GASB 40 separates the risk disclosures into four areas: custodial, interest rate, credit, and foreign currency. We encourage you to review your investment records to ensure that all required information for disclosure is obtained for any investment in your portfolio.

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Upcoming Accounting Pronouncements

GASB 42, Impairment of Capital Assets

GASB Statement 42, *Impairment of Capital Assets*, will be effective for the District for the year ended June 30, 2006. GASB 42 outlines the requirements for recognizing an impaired asset in the financial statements and addresses the accounting for any related insurance proceeds. Capital assets are considered to be impaired when the service utility has declined significantly and unexpectedly. We encourage the District to evaluate its recorded capital assets for impairment and evaluate the impact of potential asset write-downs that may be required under the new pronouncement. We encourage you to pay particular attention to idle buildings and equipment that are no longer used for educational or business purposes by the District.

GASB 45, Retiree Health Care Benefits

The following standard is required at the Plan level that does not directly impact the schools; however, it does impact the benefit that districts currently pay to the State.

The Governmental Accounting Standards Board has recently released GASB Statement 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government wide financial statements, rather than the individual fund level. Therefore, the manner in which retiree health care benefits are budgeted will not change, unless you begin funding the benefits (however, as discussed below, there are incentives to do so).

This Statement is being phased in over a three-year period, similar to GASB 34. It is effective for fiscal years beginning after December 15, 2006, 2007, or 2008. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months' lead time to work the numbers into the budget.

The GASB Statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the normal fairness issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution, so funding the contribution will actually reduce the long-run cost.

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GASB 47, Termination Benefits

GASB Statement #47, *Termination Benefits*, will be effective for the District for the year ended June 30, 2006. GASB 47 clarifies and modifies somewhat the accounting for termination benefits that may be paid to employees at retirement or separation from service. GASB 47 requires that liabilities for termination benefits be reported when accepted by the individual for voluntary benefits or when enacted by the management of the District for involuntary benefits. In addition, benefits paid over a long period of time will be reported at a present value to discount for the time value of money. We encourage the District to review its existing termination benefits to identify items that may be impacted by this accounting change.